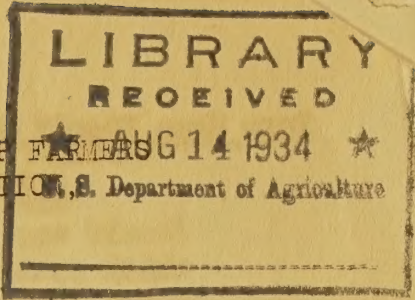


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THE AGRICULTURAL SITUATION, SOME STEPS TAKEN TO HELP FARMERS  
THROUGH THE AGRICULTURAL ADJUSTMENT ADMINISTRATION,  
AND A FEW OF THE FIRST YEAR'S RESULTS

(Discussion Suggestions Prepared by the Regional Contact Section,  
Agricultural Adjustment Administration,  
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I. -- THE AGRICULTURAL SITUATION IN THE SPRING OF 1934

Farm Problems Reach Crisis

In the spring of 1933, problems of the American farmer had reached a crisis. Agricultural conditions had been adverse for a decade, and the general situation had developed to a point where it could truly be described as "desperate". Various efforts to help the farmer had all proved inadequate. The latest of these, carried out under the Federal Farm Board and the Agricultural Marketing Act, had failed. The "stabilization operations" of the Farm Board, with huge surplus supplies overhanging the market in the face of falling prices, may actually have helped to keep prices of farm products down.

Ruinous Surpluses Wrecked Market

Huge surpluses of basic agricultural commodities were ruining the farmers' market. Wheat, cotton, tobacco, lard, rice, all were piled up in such super-abundance that the income of their producers had been more than cut in half. War-time expansion of agricultural production to meet unusual demand had seen more than 40 million additional acres placed under intensive cultivation. Then came strangled foreign trade and the disappearance of foreign markets. Reduced domestic consumption during the depression added to the problem. Farmers were continuing to produce far beyond the possible demands of contracted markets, with ruinous results.

Farm Buying Power Was Down

By February of 1933, the exchange value of farm products for industrial goods had fallen to 50 percent of the pre-war average. Back in 1919, the farmer received 18 percent of the national income. By 1932, the farmer's share of even the greatly reduced national income had fallen to about 7 percent.

### Farm Home Itself Was Threatened

The farmer's buying power had fallen so low that the farm home itself was threatened. Under the pressure of mortgage indebtedness, which could not be met, thousands upon thousands of farms were on the verge of passing out of individual ownership.

### Lost Farm Purchasing Power Hurt Business and Industry

The entire economic life of the Nation felt the loss of farm purchasing power. The farmers were "out of the market". They could not buy the things they normally buy, and business inevitably suffered. Farm purchasing power is a vital key to general prosperity, and this purchasing power was nearly wiped out.

(NOTE: - for detail on the agricultural situation and contributing causes, see the following: AAA Discussion Statement No. 1, "Taking Stock of the Situation"; "Agriculture and Foreign Trade", by Chester C. Davis.)

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## II. -- THE ADMINISTRATION TAKES STEPS TO HELP FARMERS THROUGH THE AAA

### The Agricultural Adjustment Act Aimed at Restored Farm Purchasing Power

The Agricultural Adjustment Act, passed in May, 1933, is, "An Act to Relieve the Existing National Economic Emergency by Increasing Farm Purchasing Power, etc." Its goal is fundamentally the restoration of farm prices to their pre-war "parity" level -- a level at which they will buy as much of the things a farmer has to buy as they would have bought in the pre-war years, 1909 to 1914. The Agricultural Adjustment Act is one of the cornerstones of the National Recovery program, and the Agricultural Adjustment Administration is the agency which was established to carry out its operations.

### Seek Fair Share of National Income for Farmers

Fair and proper balance between farm income and the income of the rest of our economic groups is sought through the programs of the Agricultural Adjustment Administration. They do not strive for un-sound "privilege" for agriculture, but merely for sound equality. If the farmer achieves parity with other producers and consumers, everyone in economic America will be better off.

## Fight to Reduce Ruinous Surpluses

Initial and fundamental effort of the Agricultural Adjustment Administration was directed toward reduction of the huge farm surpluses, that were largely responsible for the basic troubles of agriculture. In the face of these wasteful surpluses -- excesses which were not wanted and were not used -- American agriculture could not achieve the necessary balance between supply and effective demand which would bring restored prosperity. A carryover of 370 million bushels of unused wheat, and some 13 million bales of cotton -- such were the staggering surpluses which drew the shadow of excess over American agriculture at the time the Administration launched its broad programs for adjustment. Reduction of these surpluses was demanded, to bring farm supplies more nearly into line with effective demand.

## Production Control Programs

Reduced production of basic surplus farm commodities was the effective approach to the problem of getting rid of the surpluses. American farmers faced the facts of closed foreign markets and definitely limited demand. Production adjustment was the only sound way out. Early in the summer of 1933, the Administration launched its emergency cotton "plow up" campaign, and the first telling blow was struck at the depressing surpluses. More than 10 million acres were taken out of cotton production, and some  $4\frac{1}{2}$  million bales were kept from adding to the already top-heavy cotton surplus. Then came the wheat adjustment program, with more than a half million farmers signing contracts to reduce their acreage in an attack on the 370 million bushel surplus of United States wheat. More than 90 percent of the country's tobacco growers, cooperated in a similar adjustment effort to stabilize their crop; and in the spring of 1934 more than a million corn and hog raisers agreed to join hands in the greatest cooperative effort ever undertaken by farmers anywhere in the World. The fight against ruinous surpluses was under way on broad fronts.

## Benefit Payments Boost Crop Income and Protect Cooperators

All of the production control programs carry definite adjustment or "benefit" payments. These add substantial increases to the crop income, bringing the farm price more quickly up toward "parity", and also serve as protection for the cooperating growers. Only those who take part in the voluntary control programs, and thus aid in the adjustments to bring production into line with demand, receive the cash benefit payments. It pays farmers to take part in the present production control programs, rather than to stay out in the hope of making selfish profits at the expense of those who cooperate in the adjustment plan.

Crop income insurance features of the benefit payments have been emphasized by this year's disastrous drought. Cooperating farmers receive their definite benefit payments regardless of losses nature

may inflict upon their current crop. The payments are based on past average production, and are therefore not diminished by immediate crop failures. In thousands of cases, the adjustment benefit payments this year will enable farmers in drought stricken regions to weather the storm and rehabilitate themselves as producing members of our economic society.

### Marketing Agreements Help Other Crops

In addition to the "basic" commodities for which production control programs with benefit payments have been put into effect, a number of other agricultural commodities have been helped under the powers of the Secretary of Agriculture to enter into marketing agreements which improve the situation for producers. Producers of milk, fresh fruits, vegetables, nuts, and canners' crops in various sections of the country have benefited from these marketing agreements. They are part of the broad program to help farmers back toward parity prices and restored buying power.

(NOTE: - for detail on the programs of adjustment under the Adjustment Administration, see: "The Emergency Years", AAA Discussion Statement No. 3; "Working Together in the Corn-Hog Program", by Henry A. Wallace, Secretary of Agriculture; "The Farmers Run Their Show", AAA Bulletin, No. G-18; "The Cotton Belt's Comeback Under Agricultural Adjustment", by Cully A. Cobb, AAA Discussion Statement No. 2; "Cooperative Aspects of the Corn-Hog Program", by A. G. Black, AAA Discussion Statement No. 6.)

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### III. -- DEFINITE PROGRESS UNDER THE FIRST YEAR OF THE AAA PROGRAMS

#### Surpluses Have Been Reduced

Much progress has already been made in the emergency work of production adjustment under the Administration's commodity control programs. The first year shows surprising results in needed reduction of the depressing surpluses, with approximately 40 million acres retired from production of surplus crops and shifted to other crops which will help balance production. In some cases, as in wheat and corn, weather conditions have reinforced acreage control in cutting down the surpluses, and the domestic surpluses have largely disappeared. Extent of the success of the programs and the progress accomplished may be summarized by comparing surplus supplies in 1932 with the indicated surplus in the summer or fall of 1935, at the end of the 1934-35 crop year:

Wheat -- domestic carryover reduced from 370 million bushels to about 125 million bushels.

Cotton -- (total world supply of American cotton) reduced from 13 million bales to less than 7 million.

Hogs -- reduced from 25% surplus (in marketings for the year) to normal.

Corn -- reduced from 275 million bushels carryover in 1933 to probably less than 100 million bushels.

### Prices and Purchasing Power of Farm Products Show Gain

Prices of basic agricultural commodities have already been lifted much of the way toward parity, especially for the cooperating farmers who receive benefit payments on part of their crop in addition to the market price. By the end of 1933, farm prices had risen enough so that farmers' purchasing power, expressed in relation to the prices of things the farmer buys, was up more than 20 percent over the 1932 level. This was true of farmers in general. The farmers who signed adjustment contracts or marketing agreements were of course much nearer to parity than that. Look at the three adjustment programs which have already gone far enough to show actual result figures:

Cotton -- market price on March 15, 1934, was 11.7 cents, as compared with 6.1 on March 15, 1933.

Wheat -- market price 70.9 cents on March 15, 1934, as compared with 34.5 cents on March 15, 1933.

Tobacco -- market price of flue-cured tobacco (the most important type) was 15.2 cents for the 1933 season, as compared with 11.6 cents for the 1932 season.

These increases in farm income mean a lot to the farmer; they also mean a lot to American industry, which has recovered, in the farm market, one of its most valuable outlets for manufactured goods.

### Benefit Payments Have Added to Farm Purchasing Power

Benefit payments have made a substantial addition to farm purchasing power. Approximately a quarter of a billion dollars had been received up to July, 1934, by farmers who cooperated in the adjustment programs. The total will pass the half billion mark before the end of the year.

### Farm Values Stabilized

Increased income, especially in farm areas where the production control programs are operating effectively, has quickened every phase of economic life in these regions. Debts and taxes are being paid. Farm values are being stabilized once more. More than one billion, one hundred million dollars has been placed by the Farm Credit Administration in the farming districts in refinancing mortgages and providing other forms of agricultural credit. This action has strengthened the entire credit structure of the Nation, and moreover it saved the day for agriculture until the Adjustment Administration could get its adjustment programs under way.

### Basis Laid for Future

The programs of the Adjustment Administration have already laid a broad basis for an intelligently planned agriculture which will conserve resources, balance supply with demand, assure farmers their fair share of the national income, and be readily adjustable to meet changing conditions and emergencies.

(NOTE: - for detail on results of the Agricultural Adjustment programs, see: "One Year of the AAA - The Record Reviewed", by Chester C. Davis, AAA Bulletin No. G-14; "The Emergency Years", AAA Discussion Statement No. 3; "The Cooperative Approach to Production Control", Mordecai Ezekiel.)

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#### IV. -- CONSUMER PROTECTION, THE PROCESSING TAX, AND OTHER FEATURES OF AGRICULTURAL ADJUSTMENT

### Consumer Interest Protected in Adjustment Programs

Interests of the consuming public are given full consideration throughout all the agricultural adjustment programs. The AAA Consumers Counsel watches the price situation constantly and publishes regularly definite information on food markets for the guidance of the home buyer. A guard is thus maintained against unfair pyramiding or passing on to the consumer of undue price increases. The agricultural adjustment efforts are guided by the principle of giving the farmer equality, not an unfair or privileged advantage. It is recognized that any rise in the prices of foodstuffs which was out of line with increases in consumer purchasing power might tend to work to the disadvantage of all.

The orderly adjustment of agricultural production, to bring back the farmer's buying power and stabilize our farm producing plant, is in itself a real protection for the consumer. Demoralizing and chaotic conditions which could follow a "let-alone" policy of allowing the farmers of the Nation to drift with natural forces into general bankruptcy might well have disastrous and far-reaching results for the consumers. The whole nation is safer and more surely prosperous when agriculture is on a sound and solvent basis.

### No Threat of Food Shortages

There is no threat of food shortages in the production adjustment programs. Reductions sought apply only to surpluses, not in any way to the maximum amounts of foodstuffs which might be consumed by our people under the most favorable conditions. Farmers have been producing more than consumers can use, even in the most prosperous years. It is only this wasteful excess that is being reduced by the adjustment program.

The charge that it is wrong to reduce surplus production when many of our people are on the bread line is unfounded. The farmer has produced more than could be consumed by all our people, even with the maximum consumptive capacity of good times satisfied fully. Lack of buying power in the cities has brought on the bread lines, not any shortage of farm products. Great surpluses have been piled in the granaries of the country during the years of the depression, and, paradoxically enough, these very surpluses have contributed to the general depression and tended to lengthen the bread lines. The surpluses have wrecked farm buying power, and the effect upon our general economic welfare has been positive. Restore the farmer's purchasing power; through reduction of wasteful surpluses of his product, and you help to shorten the city bread line. And when the surpluses are reduced, the task of planning an orderly production, which will avoid building wasteful excesses again, must be faced.

### Processing Taxes Are Heart of Reduction Programs

The agricultural adjustment programs are financed by special processing taxes, and are not a drain on the general Treasury. The processing taxes mean relatively little to the consumer, but result in large percentage increases in the farmer's income. The wheat tax, for instance, adds but a fraction of a cent to the cost of a pound loaf of bread, but the farmer who takes part in the adjustment program gets benefit payments of 29 cents a bushel on his domestic allotment of wheat. And this is in addition to any increase in the market price of wheat which may be brought about by the better adjustment of supply to demand. The cotton processing tax, which has financed a program for the rehabilitation of the entire South, means an increase of but  $3\frac{1}{2}$  cents in the cost of an average work shirt.

The processing taxes are collected at the point of processing. This means that large totals are collected in cities and states where processing plants are located, but it does not mean that the tax is born by the consumers in those cities or states in more than their share. Tobacco factories and textile mills are concentrated in North Carolina, and a large volume of processing tax is collected in that State. The products of these factories, however, are distributed all over the country and consumers everywhere share in the tax. The same thing is true of the heavy concentration of packing plants in Chicago. Large tax is collected there, but it is not paid solely by the people of the Chicago territory.

Opponents of the processing taxes, which are regarded as the fairest and most effective means of financing the great farm adjustment program, differ strangely in their claims as to who finally pays the taxes. Consumers of the metropolitan centers of the East have been told positively that they pay all the processing tax. Farmers of the Corn Belt have been told that the processing taxes come out their farm price, and that they thus bear the tax burden themselves. And some will claim that the processors themselves must absorb the taxes. All of these claims cannot be right, at least not at the same time. Conditions vary with different crops and with different seasons, and the truth about the processing taxes probably lies somewhere between the extremes. One thing is certain, however, and that is that the revenue from the taxes goes back to the farmer in the form of benefit payments, helping to raise his buying power and thus improve the entire economic situation of the Nation.

### Adjustment Programs Are Flexible

The agricultural adjustment programs are flexible, designed to meet changing conditions and emergencies. The drought this year brought this feature out sharply. Within a matter of days, the great machinery of the Adjustment Administration was bringing relief to the drought stricken farmers of many states. Hundreds of thousands of cattle which were dying of starvation and thirst on burned out farms were bought in a surplus cattle removal program, and turned over to the Federal Emergency Relief Administration for distribution to those who are on relief rolls. Contracts were modified to encourage planting of emergency feed crops, and other steps were taken in a great program of drought relief.

The adjustment programs are constructive. Nearly 40 million acres have been retired from production of basic crops which were in surplus, but this land did not have to lie idle. It has been used effectively in a great shift to pasture, meadow, and forage crops. This shift is in line with the Administration's fixed policy of getting land back into soil improving and erosion preventing crops, as a replacement for the added millions of acres of intensively cultivated land which have been contributing to the farmer's wasteful excess production of surplus crops.

The adjustment effort has already accomplished much. Nearly three million American farmers have cooperated in the great programs



to adjust production in line with effective demand and reduce the burdensome surpluses. They have been able to present a united front in the battle against drought losses, effective machinery at last being available for American agriculture in meeting the required adjustments of emergency. These millions of farmers are also thinking of the future. And as they go ahead, guarding against known dangers and planning sound procedure which will bring them a fairer return for their labors, they are in position to take advantage of the leadership of a flexible, adaptable program which can be adjusted to meet changing conditions and needs.

(NOTE: - for detail on questions related to general features of the agricultural adjustment programs, as well as possible steps in building for the future, see: "Crop Insurance Features of the Agricultural Adjustment Programs", AAA bulletin No. G-12; "The Weather, the Farmers, and the Nation's Food", by Chester C. Davis, AAA bulletin No. G-13; "Agriculture and the Consumer", by Rexford G. Tugwell, AAA bulletin No. G-16; "The Next Step in the Emergency Agricultural Program", by H. R. Tolley, AAA Discussion Statement No. 4; "The Reopening of Foreign Markets for Our Agricultural Products", by Secretary Henry A. Wallace.)

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